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ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

ACTIVITIES OF THE UNITED NATIONS IN THE
FIELD OF INDUSTRIAL DEVELOPMENT

Summary of the activities of the specialized agencies
and of the International Atomic Energy Agency and
their comments on the report of the Advisory Committee
of Experts (E/C.5/29)

The attached report from the International Bank for Reconstruction and Development is submitted to the General Assembly in pursuance of paragraphs (b) and (c) (ii) of Economic and Social Council resolution 969 (XXXVI).

COMMENTS ON THE INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT ON THE REPORT OF THE ADVISORY COMMITTEE OF
EXPERTS ON THE INDUSTRIAL DEVELOPMENT ACTIVITIES OF THE
UNITED NATIONS SYSTEM

The report of the Advisory Committee of Experts very rightly stresses the importance of industrialization in the process of economic development, and the need to accelerate industrial growth in the developing countries. Unfortunately, however, it contains little analysis of what are the principal factors impeding industrialization, or of how international agencies might assist in removing these obstacles.

The Committee's main substantive recommendation is that a new United Nations Industrial Development Organization (UNIDO) be established. The report does not make clear, however, what activities this new agency would perform that are not within the scope of the existing United Nations organs and the specialized agencies - in particular how its functions would differ from those of the present United Nations Centre for Industrial Development. Nor is it clear whether the UNIDO is envisaged as an agency for economic or technological research, or for providing technical assistance, or for other purposes. The report suggests that "UNIDO would have operational activities and projects of its own" but these are not defined. Until some of these points are further clarified it is difficult for the Bank to comment on the Committee's proposal.

ACTIVITIES OF THE WORLD BANK GROUP IN INDUSTRIAL DEVELOPMENT

Loans and investments made for the direct benefit of industry by the World Bank and its affiliates, the International Finance Corporation (IFC) and the Industrial Development Association (IDA), now total some \$1,228 million. They have assisted industrial projects, numbering more than 400 in all, in thirty-six countries.

The Bank's first loans to benefit industry were those made for postwar recovery programmes in Europe in 1947. Since then, about 17 per cent of all the financing by the World Bank group has been for the direct benefit of industrial projects. As indicated in the figures for the past ten years (table I), industrial financing by the Bank first reached an annual rate of \$100 million in the fiscal year 1956/57. Since that time, the group's loans, investments and credits for industrial projects have averaged more than \$125 million a year, and in two recent years have passed \$160 million.

Much of the World Bank group's other financing also assists the process of industrialization. For example, Bank loans and IDA credits of approximately \$2,400 million have helped create electric power facilities essential to industry, and another \$2,400 million the institutions have invested in the development of transportation likewise have helped create facilities essential to industrial as well as other kinds of growth.

The World Bank institutions also engage in technical assistance activities, some of them concerned with planning and programming of industrial development within the framework of general development programming. Some twenty general survey missions have been organized to help the Bank's member countries draw up long-range development programmes, and all of them have made recommendations concerning appropriate measures to stimulate and assist the growth of the industrial sector. Both the Bank and IFC have aided in the creation of industrial development finance companies (development banks), which themselves provide not only finance but managerial and technical assistance to industry. IFC has made a number of pre-investment studies looking to the establishment of new industries in its member countries; and many other technical assistance activities of the group have some bearing on the development of industry.

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WORLD BANK GROUP: DEVELOPMENT FINANCE SUPPLIED TO INDUSTRY
1953-54/1962-63

MILLIONS US DOLLARS

Fiscal Years	World Bank Loans	IFC (loans, share subscrip- tions and standby and underwriting commitments)	IDA Credits	Total	
1953-54	19			19	
1954-55	68			68	
1955-56	95			95	
1956-57	108	1.0		109	
1957-58	106	8.5		114.5	
1958-59	144	10.0		154.0	
1959-60	146	18.7		164.7	
1960-61	48	5.8		53.8	
1961-62	136	21.3 ^{1/}	5.0	162.3	
1962-63	110	17.6 ^{2/}	11.5	139.1	
TOTAL	1953-63	980	82.8^{3/}	16.5	1,079.4

1/ Includes stand-by and underwriting commitments of \$US2.9 million.

2/ " " " " " " \$US5.1 million.

3/ Of this total commitment figure \$2.8 million of IFC's underwriting and standby commitments were acquired by others.

CUMULATIVE TOTAL 1948-1963 = \$1,228 million

THE WORLD BANK

The World Bank is the largest multilateral source of development financing. On 30 June, it had eighty-five member countries and subscribed capital of \$20,730 million. Of this amount, member countries had actually paid in \$1,690 million which was available for lending by the Bank. In addition, the Bank's accumulated net income, amounting at 30 June to \$558 million, is available for lending; and the Bank augments or replenishes its loan funds by borrowings, of which about \$2,500 million were outstanding at 30 June, and by the sales of parts of its loans to other investors, of which about \$1,600 million had been made by 30 June.

The industrial loans of the Bank (apart from its reconstruction loans in Europe), amounted to \$1,129 million at 30 June. They have been extensively described in two earlier reports to the Committee for Industrial Development (E/C.5/13/Add.5 of 9 February 1962 and E/C.5/34/Add.4 of 23 April 1963). In the interval between the more recent of these reports and 30 June, the Bank has made one more loan for an industrial project: \$30 million to improve and diversify the output of the Acerias Paz del Rio, S.A., of Colombia. This is the Bank's first loan for a basic steel industry in the Western Hemisphere.

THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

IDA, the newest member of the World Bank group, was established in 1960 to provide development financing for the less developed countries on terms more favorable than those of conventional credit sources. IDA's development credits have been made on fifty-year terms, with a ten-year grace period before repayment begins; they carry no interest, although there is a service charge of $\frac{3}{4}$ of 1 per cent to cover IDA's administrative expenses. On 30 June 1963, IDA had a membership of seventy-six countries and usable subscriptions of about \$765 million in convertible funds. Its funds remaining available for new commitments amounted to about \$193 million; and steps are being taken toward replenishing IDA's resources as a basis for new commitments during the next three years.

The purpose of IDA's favorable terms is to ease the balance of payments burdens of its less developed member countries, not to subsidize particular projects. IDA's credits therefore are made to Governments; and when Governments re-lend the proceeds of the credits to other borrowers, they do so on financial terms that are customary for the type of transaction involved. Up to now, \$17 million of IDA credits have been intended for the benefit of industry; they have been extended to provide funds to industrial finance companies in Turkey and the Republic of China, and to help develop industrial estates in Pakistan.

THE INTERNATIONAL FINANCE CORPORATION (IFC)

IFC was established in 1956 to stimulate the investment of private capital in economic development, and up to now has concerned itself exclusively with investments in the industrial sector. At 30 June, IFC had seventy-three member governments and paid in capital of \$98.2 million; and the Governors had approved a resolution which will make an additional \$10 million of capital available for subscription by new member governments before the end of 1963. At 30 June, IFC had made net commitments of \$83 million in more than sixty industrial undertakings in twenty-four member countries and territories.

Of all the specialized agencies dealing with finance, IFC is the only one able to subscribe to capital shares. It has had this authority only since September 1961, and has exercised it most fully since the end of the period covered in document E/C.5/34/Add.4. IFC's new ability to subscribe to equity has had several important consequences. The Corporation has been enabled to make its investments in simpler form than heretofore, in straight loan and straight equity, and to provide risk capital of a sort especially suited to new and expanding enterprises. The Corporation also has been able to underwrite new issues of securities by industrial companies or to take a standby position with respect to these issues, and thereby has added to its means of stimulating the mobilization of private investment, both domestic and international. Finally, IFC's ability to take up shares has been of particular importance in enabling it to expand the capital structure and enlarge the investment operations of industrial finance companies in the less developed countries.

IFC's first underwriting came in connexion with a new stock issue by the largest private steel company in Mexico. IFC joined a syndicate for the purpose of underwriting the shares, and also purchased a block of shares outright. Later, IFC assisted the placement of convertible debentures abroad by another Mexican company, the first such placement to occur under new Mexican law. IFC took a standby position with respect to part of the debenture issue, and acquired some of the debentures outright. In all, IFC's underwriting and standby commitments in the fiscal year ended 30 June amounted to over \$5 million.

WORLD BANK GROUP DEVELOPMENT BANK FINANCING
AT 30 JUNE 1963

		<u>\$US Millions</u>
Austria	(3 World Bank loans)	23.2
China	(1 IDA credit)	5.0
Colombia	(IFC share subscription to 2 Financiers)	4.1
Ethiopia	(2 World Bank loans)	4.0
India	(5 World Bank loans)	89.9
Iran	(1 World Bank loan)	5.2
Morocco	(1 World Bank loan and IFC share subscription)	16.5
Pakistan	(4 World Bank loans and IFC share subscription)	49.5
Philippines	(1 World Bank loan and IFC share subscription)	19.4
Spain	(IFC share subscription)	0.3
Turkey	(2 World Bank loans and IDA credit)	22.6
TOTAL		<u>239.8</u>
	World Bank loans =	\$219.1 million
	IDA credits =	\$ 10.0 million
	IFC subscriptions =	\$ 10.7 million

NOTE:

Since 30 June 1963, the World Bank has announced a loan of \$8 million and the IFC a share subscription to an industrial finance company in Malaya. Other investments projected include development finance institutions in Colombia, Finland, Nigeria, Thailand, Turkey and Venezuela.

Since the beginning of 1962, IFC has taken the lead for the World Bank group in considering proposals for the establishment of new industrial development finance companies or for financial and technical assistance to such companies. The aim of IFC as part of the World Bank group is to help to establish or reorganize industrial finance companies on a broad basis of private ownership, and to see that they are both independently operated and financially viable. IFC supplies share capital, which these institutions need both as a basis for their borrowings and to permit them to make equity investments, and helps these institutions to obtain participation in their share capital by private investors abroad. IFC also believes, however, that domestic shareholdings should be as widely distributed as the potentialities of the local capital market allow. If necessary, IFC is prepared to regard its own share participation as a domestic holding, and to agree to sell its shares only to domestic nationals, so as to ensure that these institutions are not controlled from abroad and that the autonomy of national interests is preserved.

In the year ended 30 June, IFC and the World Bank embarked on their first combined financial assistance to industrial finance companies: the Bank provided loans and IFC subscribed share capital to development corporations in Morocco, Pakistan and the Philippines. In a fourth case, IFC agreed to invest in a newly established institution in Spain without World Bank participation. Several other proposals, for investments in new or existing institutions in Finland, Malaya, Nigeria, Thailand, Turkey and Venezuela are at an advanced stage of consideration. As indicated in the accompanying table, the World Bank group by the end of June 1963 had made loans, investments and credits for twelve industrial finance companies in eleven countries, and the further development of such companies appears sure to be a principal activity of IFC for some time to come.